

**TRANSPORTES AÉREOS PEGASO, S. A. DE C. V.**

**Financial Statements**

**As of December 31, 2020, and 2019  
with independent auditors report**

**TRANSPORTES AÉREOS PEGASO, S. A. DE C. V.**

**Financial Statements**

**As of December 31, 2020, and 2019**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders  
Of Transportes Aéreos Pegaso, S. A. de C. V.

### *Opinion*

We have audited the accompanying financial statements of Transportes Aéreos Pegaso, S. A. de C. V. ("the Company"), which comprise the statement of financial position as at December 31, 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Transportes Aéreos Pegaso, S. A. de C. V. as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with Mexican Financial Reporting Standards ("MFRS").

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Mexico according with the "Código de Ética Profesional del Instituto Mexicano de Contadores Públicos" ("IMCP Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Other information*

The Company's financial statements for the year ended December 31, 2019 were audited by other auditors, who expressed an unmodified (favorable) opinion on said financial statements on May 29, 2020.

### **Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the accompanying financial statements in accordance with MFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The partner in charge of the audit resulting in this independent auditor's report, is who signs it.

Our audit opinion and the accompanying financial statements and footnotes have been translated from the original Spanish version into English for convenience purposes only.

Mancera, S.C.  
Integrante de  
Ernst & Young Global Limited



C.P.C. Luis F. Ortega Sinencio

Mexico City  
June 16, 2021

**TRANSPORTES AÉREOS PEGASO, S.A. DE C.V.**

**Statements of Financial Position**

(Amounts in U. S. dollars )

	As at 31 December	
	2020	2019
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 8,055,805	\$ 8,123,558
Accounts receivable (Note 3)	21,204,320	7,737,934
Other accounts receivable	2,002,359	1,365,385
Advanced payments (Note 4)	6,676,836	14,028,500
Total current assets	<u>37,939,320</u>	<u>31,255,377</u>
Non-current assets:		
Property and equipment, net (Notes 5 y 6)	64,443,584	47,585,049
Intangible assets	1,758,142	2,084,733
Deferred income Tax	542,478	542,478
Total non-current Assets	<u>66,744,204</u>	<u>50,212,260</u>
Total Assets	<u>\$ 104,683,524</u>	<u>\$ 81,467,637</u>
<b><u>Liabilities and Stockholders' Equity</u></b>		
Current Liabilities:		
Suppliers	\$ 7,082,551	\$ 7,967,433
Sundry creditors	8,942,314	5,652,744
Taxes payable	7,985,236	6,547,045
Current portion of long-term liabilities (Note 8)	9,420,566	8,008,961
Total Current Liabilities	<u>33,430,667</u>	<u>28,176,183</u>
Long-term Liabilities:		
Long-term loans (Note 8)	48,298,769	34,195,901
Total Long-term Liabilities	<u>48,298,769</u>	<u>34,195,901</u>
Total Liabilities	<u>81,729,436</u>	<u>62,372,084</u>
Stockholders' Equity (Note 10):		
Capital stock (Note 12)	1,271,340	1,271,340
Legal reserve	172,533	172,533
Retained earnings	17,088,466	13,442,220
Income for the period	4,421,749	4,209,460
Total Stockholders' Equity	<u>22,954,088</u>	<u>19,095,553</u>
Total Liabilities and Stockholders' Equity	<u>\$ 104,683,524</u>	<u>\$ 81,467,637</u>

The attached notes are integral part of these financial statements.

TRANSPORTES AÉREOS PEGASO, S.A. DE C.V.

Statements of Comprehensive Income

(Amounts in U. S. dollars )

	For the year ended 31 December	
	2020	2019
Service income (Flights)	\$ 67,247,092	\$ 61,857,115
Cost of services (Flights)	55,362,656	52,215,780
Gross profit	11,884,436	9,641,335
Operating Expenses:		
Administration expenses	2,210,587	2,537,414
Operating Profit	9,673,849	7,103,921
Other products - net (Note 13)	573,440	2,434,771
Financing income or loss - net (Note 12):		
Interest expenses - net	( 3,463,868)	( 3,461,907)
Exchange loss - net	257,679	( 546,416)
	( 3,206,189)	( 4,008,323)
Profit before income taxes	7,041,100	5,530,369
Income tax (Note 11)	( 2,619,351)	( 1,320,909)
Net income for the period	\$ 4,421,749	\$ 4,209,460

The attached notes are integral part of these financial statements.

TRANSPORTES AÉREOS PEGASO, S.A. DE C.V.

Statements of Changes in Stockholders' Equity

For the years ended 31 December 2020 and 2019

(Amounts in U. S. dollars )

	Capital Stock	Legal Reserve	Retained Earnings	Total Stockholder's Equity
Balances at December 31, 2018	\$ 1,271,340	\$ 172,533	\$ 16,381,375	\$ 17,825,248
Dividends declared and paid (Note 10)	-	-	( 2,939,155)	( 2,939,155)
Comprehensive income	-	-	4,209,460	4,209,460
Balances at December 31, 2019	1,271,340	172,533	17,651,680	19,095,553
Dividends declared and paid (Note 10)	-	-	( 563,214)	( 563,214)
Comprehensive income	-	-	4,421,749	4,421,749
Balances at December 31, 2020	\$ 1,271,340	\$ 172,533	\$ 21,510,215	\$ 22,954,088

The attached notes are integral part of these financial statements.



**TRANSPORTES AÉREOS PEGASO, S.A. DE C.V.**

**Statements of Cash Flows**

(Amounts in U. S. dollars )

	For the year ended 31 December	
	2020	2019
<b>Operating Activities</b>		
Income before income taxes	\$ 7,041,100	\$ 5,530,369
Items related to investing activities:		
Depreciation	13,215,894	11,507,447
Interest receivable	( 39,756)	( 106,223)
Profit on property and equipment disposal	-	( 2,183,879)
Items related to financing activities:		
Interest Payable	3,503,624	3,568,130
	<u>23,720,862</u>	<u>18,315,844</u>
Accounts receivable and others	( 13,776,770)	( 3,168,984)
Advance payments	7,351,664	( 4,024,072)
Suppliers, creditors and advances to suppliers	2,404,688	2,544,595
Tax payable	( 1,181,158)	1,617,355
Net Cash flows provided by operating activities	<u>18,519,286</u>	<u>15,284,738</u>
<b>Investing Activities</b>		
Interest receivable	39,756	106,223
Disposition of property and equipment	-	3,650,629
Acquisition of property and equipment	( 30,074,430)	( 17,739,771)
Net Cash flows provided by financing activities	<u>( 30,034,674)</u>	<u>( 13,982,919)</u>
Cash surplus to be applied to/(obtained from) financing activities	<u>( 11,515,388)</u>	<u>1,301,819</u>
<b>Financing Activities</b>		
Dividends paid	( 563,214)	( 2,939,155)
Acquisition of long-term credits	24,927,396	10,769,000
Payments of long-term loans	( 9,412,923)	( 8,224,659)
Interest paid	( 3,503,624)	( 3,568,130)
Net Cash flows provided by financing activities	<u>11,447,635</u>	<u>( 3,962,944)</u>
Increase in cash and cash equivalents	( 67,753)	( 2,661,125)
Cash and cash equivalents at beginning of year	8,123,558	10,784,683
Cash and cash equivalents at year end	<u>\$ 8,055,805</u>	<u>\$ 8,123,558</u>

The attached notes are integral part of these financial statements.

# **TRANSPORTES AÉREOS PEGASO, S.A. DE C.V.**

## **Notes to the Financial Statements**

As at December 31, 2020 and 2019

(Amounts in U. S. dollars)

### **1. Company activity**

Transportes Aéreos Pegaso, S. A. de C. V. was incorporated on February 16, 1981, as per articles of incorporation 37852 before notary public number 16 for Mexico City, Lic. Francisco Fernández Cueto. The Company is mainly engaged in air transport activities in general.

The period of the Company's operations and the fiscal year are from January 1 to December 31 of each year.

The duration of the entity is 99 years.

The issuance of the financial statements and the corresponding notes was authorized by the Chief Executive Officer, C. Enrique Zepeda Navarro and the Chief Financial Officer, C.P.C. Juan Carlos Erosa Zepeda on June 16, 2021. These financial statements must be approved at a later date by the Shareholders' Meeting. This body has the power to modify the accompanying financial statements. Subsequent events were considered up to this date.

### **Significant accounting policies applied**

#### **a) Compliance with Mexican Financial Reporting Standards ("MFRS")**

The financial statements as of 31 December 2020 and 2019 have been prepared in accordance with Mexican Financial Reporting Standards ("MFRS" or "Mexican FRS").

#### **b) Basis of preparation**

The financial statements as of 31 December 2020 and 2019 have been prepared on a historical cost basis, and the non-monetary items that were acquired or recognized in the financial statements before 31 December 2007, as such items reflect the cumulative effects of inflation from their initial recognition date through 31 December 2007. Also, available-for-sale assets are recognized at fair value, as are the carrying amounts of the assets and liabilities recognized and whose risks are being hedged.

2.

From 1 January 2008 Mexico is considered to have a non-inflationary economic environment, as defined under Mexican FRS B 10 "Effects of Inflation". As at 31 December 2020 and 2019, Mexico's cumulative inflation rate for the three prior years was 26% (annual average of 8%), which represents the necessary condition for considering Mexico as having a non-inflationary economic environment. Accordingly, the Company ceased restating its financial statements for inflation as of 1 January 2008

As determined based on the National Consumer Price Index (NCPI) published by the National Statistical and Geographical Information Agency (INEGI), Mexico's annual inflation rate for 2020 and 2019 is as follows:

	Cumulative inflation for 2019	Cumulative inflation for 2020	Inflation for the year
	(sum of inflation rates for 2017, 2018 and 2019)	(sum of inflation rates for 2018, 2019 and 2020)	(Inflation rate for 2020)
Inflation rates	14.43%	17.58%	3.15%

Under Mexican FRS, this cumulative inflation rate represents the necessary condition for considering Mexico as having a non-inflationary economic environment, which means that the financial statements should be prepared on a historical cost basis.

### c) Retrospective recognition of accounting changes

As of 1 January 2020, the Company retrospectively adopted the accounting changes arising from the adoption of the Improvements to Mexican FRS for 2020, and the Improvements to Mexican FRS for 2021, which did not have a material impact on the financial information presented by the Company in 2020.

### Classification of short-term (current) and long-term (non-current) assets and liabilities

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is classified as short-term when:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Expected to be realized within twelve months after the reporting period;
- Held primarily for the purpose of trading, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as short-term when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading ;
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as long-term (non-current).

#### **d) Revenue from contracts with customers**

The Company's primarily activity is air transportation in general.

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements, except for the agency services, because it typically controls the goods or services before transferring them to the customer.

#### **e) Accounts receivable**

A receivable represents the Company's right to an amount due from customers of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due) and pertain to sales of goods or services rendered over the normal course of the Company's operations. When they are expected to be collected in a period of one year or less from the closing date, they are presented as current assets. If they do not comply with the afore mentioned, they are presented as non-current assets.

Accounts receivable are initially recognized at fair value and subsequently measured at their amortized cost, using the effective interest rate method, less the allowance for doubtful accounts.

4.

#### **f) Using estimates**

The preparation of the Company's financial statements in accordance with Mexican FRS requires management to make judgements, estimates and significant assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. The Company based its estimates on the available information at the time the financial statements were prepared. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

#### **- Leases**

- Determination of the lease term in contracts with renewal and termination options - The Company as lessee

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

#### **g) Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position principally consist of petty cash balances in local and foreign currency, bank deposits and highly liquid financial instruments that are not investments subject to significant risk of changes in value, with maturities of 90 days or less. Cash and cash equivalents are recognized initially and subsequently at fair value..

Cash and cash equivalents in foreign currency are translated using the rate of exchange prevailing at the reporting date. Exchange differences are recognized in the statement of comprehensive income as they accrue.

**h) Financial instruments initial and subsequent recognition**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity

**i) Accounts receivable and other accounts receivable**

Accounts receivable represent the consideration to which an entity is entitled in exchange for satisfaction of a performance obligation through the transfer of a promised good or service to a customer.

Accounts receivable are recognized upon accrual of the transaction giving rise to them, which occurs when control over the promised good or service is transferred to the customer in execution of the terms of the related contract. Accounts receivable are only recognized when they meet the conditions for recognition of the corresponding revenue in accordance with Mexican FRS D-1 Revenue from Contracts with Customers.

The amount of a receivable can vary because of rebates, discounts or refunds, and the corresponding changes to the consideration amount are recognized at the time the customer becomes entitled to such rebate, discount or refund.

Accounts receivable are initially recognized at the transaction price determined in accordance with Mexican FRS D-1 and subsequently adjusted to the amount of the transaction price that has not been collected from the customer.

Receivables denominated in foreign currency or in another medium of exchange are translated to the Company's functional currency using the rate of exchange prevailing at the reporting date. Changes in the amount of trade receivables arising from exchange rate fluctuations are recognized as part of net financing cost.

Accounts receivable are classified as either short-term or long-term depending on the length of their terms. Accounts receivable that are due within one year of the reporting date (or within the entity's normal business cycle if it exceeds one year) are classified as short-term. All other accounts receivable are classified as long-term.

**j) Estimate for expected credit losses**

The Company recognizes an allowance for expected credit losses and exercises its judgement to determine the expected credit losses of its trade receivables, taking into consideration its historical credit loss experience, current circumstances, and reasonable and sustainable forecasts of different future quantifiable events that could reduce the future cash flows earned from the Company's receivables.

The Company recognizes the allowance for expected credit losses related to accounts receivable in accordance with Mexican FRS C-16 Impairment of Financial instruments receivable.

As of December 31, 2020 and 2019, no allowances for expected credit losses were determined.

6.

#### **k) Advance payments**

Prepaid expenses are initially recognized as assets as of the date the payment is made, provided that it is probable that the future economic benefits associated with the asset will flow to the Company.

Prepaid expenses denominated in foreign currencies are translated using the exchange rates prevailing at the dates of the initial transactions, with no subsequent adjustments recorded for changes in the exchange rates of the currency in which the prepayments were made.

At the time the goods or services are received, the Company recognizes the amount related to the prepaid expenses as an asset, depending on whether it is certain that the goods or services acquired will generate future economic benefits.

The Company periodically evaluates its prepaid expenses to determine the probability that they will cease to generate future economic benefits and to assess their recoverability. Irrecoverable prepaid expenses are recognized as impairment losses in the income statement. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the recoverable amount of prepaid expenses, to the extent that such changes are of a permanent nature. These reversals are recognized affecting the statement of comprehensive income of the current period.

#### **l) Property, and equipment**

Property and equipment are initially recognized at their acquisition value.

Those assets requiring a substantial period of time to get ready for their intended use, the acquisition (construction) cost includes: the acquisition cost of the asset and capitalized borrowing costs incurred during the acquisition period (construction and installation) of the asset.

The cost of acquiring property, plant and equipment includes the costs initially incurred to acquire or build the asset, plus costs subsequently incurred to replace the asset or enhance its service capability. For machinery and equipment made up of components with different estimated useful lives, the major individual components are depreciated over their individual useful lives. Repair and maintenance costs are expensed as incurred.

Depreciation of property and equipment is calculated on the asset's acquisition cost less the residual value of property and equipment on a straight-line basis (since management considers that this method best reflects the use of these assets) and over the estimated useful lives of the assets, as follows:

	<u>Estimated useful life</u>
Buildings	20 a 40 years
Flight equipment	6.25 years
Transportation equipment	4 years
Office furniture and equipment	10 years
Computer equipment	3.34 years
Tools	2.87 years

Prepayments to suppliers are capitalized in property and equipment at the time the risks and rewards of ownership of the goods have been transferred to the Company .

Capitalized financing costs are determined by applying the weighted average capitalization rate of financing costs to the weighted average amount of investments in qualifying assets made during the acquisition period.

The carrying amount of property, plant and equipment is reviewed whenever there are indicators of impairment in the value of such assets. When the recoverable amount of an asset, which is the higher of the asset's expected net selling price and its value in use (the present value of future cash flows) is less than its net carrying amount, the difference is recognized as an impairment loss.

For items of property, plant and equipment, when the circumstances that caused the impairment loss are favorably resolved and there are observable indications that the net carrying amount of the asset has increased, the impairment loss is reversed. When an impairment loss is reversed, the amount recognized shall be net of depreciation for the year in which the reversal occurs.

For the years ended as at 31 December 2020 and 2019, there were no indicators of impairment.

#### **m) Leases**

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. If not, it is a service contract.

#### **Company as a lessee**

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets (based on its materiality) . The Company recognizes lease liabilities to make lease payments and right of use assets representing the right to use the underlying assets.



8.

#### **i) Assets for rights of use**

The Company recognizes right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation or amortization and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the initial amount of lease liabilities recognized, initial direct costs incurred by the lessee, and lease payments made at or before the commencement date less any lease incentives received. Right of use assets are depreciated or amortized on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

The Company's lease arrangements do not contain an obligation to dismantle and remove the underlying asset, restore the site on which it is located or restore the underlying asset to a specified condition.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation or amortization is calculated using the estimated useful life of the asset.

The right of use assets are also subject to impairment. Refer to the accounting policies in Note 1i) Use of estimates, specifically about the impairment in the value of non-financial assets.

#### **ii) Lease liabilities**

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company's lease liabilities are presented separately in the statement of financial position.

### **iii) Short-term leases and leases in which the underlying asset is of low value**

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

### **n) Provisions, contingents and commitments**

Provisions are recognized when (i) the Company has a present obligation (legal or constructive) as a result of a past event, (ii) it is probable (more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and (iii) a reliable estimate can be made of the amount of the obligation.

When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is mostly certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provision amounts are determined as the present value of the expected outflow of resources to settle the obligation. The provisions are discounted using a pre-tax rate that reflects the current market conditions at the date of the statement of financial position and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

The recognized amounts as provisions are management's best estimates.

Contingent liabilities are recognized only when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Also, commitments are only recognized when they will generate a loss. As of December 31, 2020, the Company did not have any contingent liabilities

Contingent assets are recognized when the realization of income is mostly certain.

Trade advances in foreign currency are translated using the exchange rate prevailing on the day of the initial transactions, and are not adjusted for subsequent changes in exchange rates. Trade advances are recognized as current liabilities and recognized as expenses as the products are sold or the services are rendered.

10.

**o) Exchange differences**

Transactions in foreign currency (currencies) are initially translated using the exchange rate(s) prevailing on the day of the initial transactions. Foreign currency denominated assets and liabilities are translated using the exchange rate ruling at the reporting date.

Exchange differences from the transaction date to the time foreign currency denominated assets and liabilities are settled, as well as those arising from the translation of foreign currency denominated balances at the reporting date, are recognized in the statement of income.

**p) Comprehensive income**

Comprehensive income represents the increase or decrease in earned capital from net income or loss for the year, components of other comprehensive income (OCI) and the Company's share in the OCI of other entities. Other comprehensive income (OCI) consists of income, cost and expense items recognized in equity that are expected to be realized in the medium (long) term and whose amounts may change due to changes in the fair value of the assets and liabilities that gave rise to them, making their realization uncertain. .

**q) Income tax**

**Current income tax**

Current income tax is recognized as a current liability, net of prepayments made during the year. Current income tax is recognized as an expense in profit or loss.

**Deferred income tax**

Deferred income tax is calculated using the asset and liability method. Under this method, deferred taxes are recognized on all temporary differences between financial reporting and tax values of assets and liabilities, applying the income tax rate as of the date of the statement of financial position, or the enacted rate at the date of the statement of financial position that will be in effect when the temporary differences giving rise to deferred tax assets and liabilities are expected to be recovered or settled.

The Company periodically evaluates the possibility of recovering deferred tax assets and if necessary, creates a valuation allowance for those assets that do not have a high probability of being realized.

**r) Statement of comprehensive income presentation**

Costs and expenses shown in the statement of comprehensive income are analyzed by their function in order to present cost of sales separately from other costs and expenses, since such classification allows for a more accurate evaluation of the Company's operating and gross profit margins.

Although not required to do so under Mexican FRS, the Company includes operating income/(loss) in the income statement, since this item is an important indicator for evaluating the Company's operating results, given that this is a common disclosure in the industry in which the Company operates.

### **s) Equity**

Changes in the Company's equity, legal reserve, share premiums and cumulative gains (losses) are recognized in terms of historical cost as of 1 January 2008. These changes were restated for inflation through 31 December 2007.

### **t) Financial risk management objectives and policies**

The Company's main financial liabilities, comprise loans , trade and other payables. The main purpose of these financial liabilities is to is to acquire Assets (mainly Aircraft), to finance the Company's operations and to provide guarantees to support its operations. The Company's main financial assets include loans, trade and other receivables, as well as cash and short-term deposits that derive directly from its operations. The Company also holds available-for-sale investments and enters into derivative transactions.

The Company is exposed to (i) market risk (which includes interest rate risk and foreign currency risk), (ii) credit risk, and (iii) liquidity risk.

#### **(i) Market risks**

- Interest rate risk - This risk results from fluctuations in market interest rates, which affect the value of the Company's contracted debt, lease obligations and derivative financial instruments.
- Foreign currency risk - This risk results from volatility in the foreign currency market, which affects the value of the Company's foreign currency holdings, and its foreign-currency denominated in cash, accounts receivable, related-party transactions, supplier accounts and other accounts payable, debt and derivative financial instruments.
- Commodities price risk - This risk arises from the fact that the Company needs high volumes of certain fuels (such as gas and electricity) to carry out its business activities.

#### **(ii) Credit risk**

Credit risk is the risk that the counterparty (customer, supplier, related party or financial company) will default on its payment of obligations with the Company.

#### **(iii) Liquidity risk**

Liquidity risk is the risk that debt and equity market conditions will impede the Company from having the financial resources it needs for its business activities.

12.

The Company monitors its liquidity risk using liquidity planning tools.

### **Concentration of risk**

Concentrations arise when several counterparties are engaged in similar business activities, or activities in the same geographic region, or have economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the company's results to events affecting the Aviation Industry .

In order to avoid excessive concentrations of risk, the Company's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Company to manage risk concentrations at both the relationship and industry levels.

The credit risk in accounts receivable is mitigated by the fact the Company has a broad customer base that is geographically diverse. The Company continuously monitors its customer accounts and it requires no collateral to guarantee collection of its receivables. Nevertheless, in the event that the Company's collection cycles deteriorate significantly, its financial performance could be adversely affected.

### **u) Capital management**

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of its financial covenants. To maintain or adjust its capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt.

In order to achieve this overall objective, the Company's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches in the financial covenants of any interest-bearing loans and borrowing in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019

**v) New accounting pronouncements****1) Standards, Interpretations and Improvements to Mexican FRS issued but not yet effective**

The standards and interpretations that are issued but not yet effective up to the date of issue of the Company's financial statements are disclosed below.

The Company intends to adopt these standards, if applicable, when they become effective.

**Mexican Financial Reporting Standard (Mexican FRS) C-15 Impairment of Long-lived Assets (effective for annual periods beginning on or after 1 January 2022)**

Mexican FRS C-15 Impairment of Long-lived Assets was issued by the CINIF in December 2020 and sets out the framework for the accounting recognition of impairment losses on the value of long-lived assets, and their reversal.

Mexican FRS C-15 will supersede Bulletin C-15 Accounting for the Impairment or Disposal of Long-lived Assets. The most important changes contained in the new standard are as follows: Mexican FRS C-15 provides new examples to assess whether there is any indication that an asset may be impaired, for the purpose of impairment testing, the term net selling price is now replaced by the term fair value less costs to sell, entities now have the option to use an estimate of future cash flows and a real discount rate, to determine the recoverable amount, new guidelines for the accounting treatment of foreign currency future cash flows, new guidelines for the allocation of goodwill at a cash-generating unit (CGU) level and recognition of an impairment loss, impairment tests will no longer be determined using the perpetuity value for intangible assets with indefinite useful lives and, as a result, such impairment tests have been modified, new guidelines that address the impairment of corporate assets, and as a result of the aforementioned changes, the disclosure guidelines have been modified.

Mexican FRS C-15 is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

The adoption of Mexican FRS C-15 had no effect on the Company's financial statements.

14.

**Mexican Financial Reporting Standard (Mexican FRS) C-17 Investment Property (effective for annual periods beginning on or after 1 January 2021)**

Mexican FRS C-17 Investment Property was issued by the CINIF in December 2019 and addresses the accounting for investment properties.

Mexican FRS C-17 eliminates the supplementary application of IAS 40 Investment Property and supersedes Circular 55 Supplementary application of IAS 40 as of the date of adoption of the new standard.

The most important changes contained in the new Mexican FRS C-17 compared to Circular 55 are: i) entities may now choose to subsequently measure investment properties at either cost or fair value; and ii) the definition of investment property has been modified for considering these assets held for capital appreciation in the medium-term through its sell. As a result of this change, assets held to earn rentals by a lease commitment are outside the scope of Mexican FRS C-17.

Mexican FRS C-17 is effective for annual periods beginning on or after 1 January 2021, with early application permitted.

The adoption of Mexican FRS C-17 had no effect on the Company's financial statements..

**Interpretation to Mexican FRS 24 Recognition of the effect of the application of new benchmark interest rates (effective for annual periods beginning on or after 1 January 2021)**

Interpretation to Mexican FRS 24 Recognition of the effect of the application of new benchmark interest rates was issued by the CINIF in October 2020 to establish guidelines regarding the effects of adopting the new benchmark interest rates applicable to financial assets and liabilities or hedging relationships. The referred benchmark interest rates replace the 'IBOR' rates (e.g. TIIE, LIBOR, EURIBOR, Prime Offering Rate, etc.) applied under the previous guidance. The Interpretation also addresses whether the adjustments arising from the replacement or change in interest rates shall cause the financial instrument to be derecognized or the hedging relationship to be discontinued.

The new Interpretation also establishes new disclosures related to the adoption of the new benchmark interest rates.

Interpretation to Mexican FRS 24 is effective for annual periods beginning on or after 1 January 2021, with early application permitted. The effects of the change to benchmark interest rates must be recognized prospectively.

The adoption of Interpretation to Mexican FRS 24 had no effect on the Company's financial statements.

## **Improvements to Mexican FRS for 2021**

The improvements that give rise to accounting changes related to valuation, disclosures or presentation in the financial statements are as follows:

### **(i) Mexican FRS B-1 Accounting Changes and Error Corrections**

Entities are now required to recognize prospectively the initial effect of an accounting change or error correction when it is impracticable to determine such initial effect using the retrospective approach.

This improvement is effective for annual periods beginning on or after 1 January 2021, with early adoption permitted for annual periods beginning on or after 1 January 2020. Any accounting changes arising from the adoption of this improvement are to be recognized prospectively.

The adoption of this improvement had no effect on the Company's financial statements.

### **(ii) Mexican FRS B-3 Statement of Comprehensive Income; Mexican FRS C-2 Investment in Financial Instruments; Mexican FRS C-19 Financial Liabilities; and Mexican FRS C-20 Financial Assets**

Entities are now required to separately recognize, as part of operating results in the statement of comprehensive income, any gains and losses arising on derecognition of liabilities as well as the effects of renegotiation of financial assets to collect principal and interest ("IFCPI" as it stands for in Spanish) or financial assets to collect or sell ("IFCV" as it stands for in Spanish), known as "loan reduction".

This improvement is effective for annual periods beginning on or after 1 January 2021, with early adoption permitted for annual periods beginning on or after 1 January 2020.

The adoption of this improvement had no effect on the Company's financial statements.

### **(iii) Mexican FRS D-5 Leases**

#### **a) Lease recognition exemption disclosures**

Mexican FRS D-5 clarifies certain issues surrounding the expense related to short-term leases and leases of low-value assets, for which no right-of-use asset is recognized.

#### **b) Sale-leaseback transactions**

Mexican FRS D-5 explains and clarifies certain issues surrounding the determination of the lease liability arising in a sale and leaseback transaction. Consequently, the illustrative example of a sale and leaseback transaction provided in Mexican FRS D-5 has been modified.



16.

These improvements are effective for annual periods beginning on or after 1 January 2021, with early adoption permitted for annual periods beginning on or after 1 January 2020.

The adoption of these improvements had no effect on the Company's financial statements.

## **2) ) New Standards, Interpretations and Improvements to Mexican FRS effective as at 1 January 2020**

The Company applied for the first-time certain standards, interpretations and amendments, which are effective for annual periods beginning on or after 1 January 2020.

The nature and effect of the changes arising from the adoption of these (this) new accounting standard(s) are described below.

The following new accounting pronouncements are effective for annual periods beginning on or after 1 January 2020:

### **Mexican FRS B-11 Disposal of Long-lived Assets and Discontinued Operations**

In November 2018, the CINIF issued Mexican FRS B-11 Disposal of Long-lived Assets and Discontinued Operations, the purpose of which is to separate the requirements for presentation and disclosure of disposals of long-lived assets (or disposal groups) classified as held for sale, as well as discontinued operations, from the requirements for measurement of long-lived assets were established as of 31 December 2019, in Bulletin C-15 Accounting for the Impairment or Disposal of Long-lived Assets.

Mexican FRS B-11 establishes that long-lived assets and certain assets that an entity would normally regard as non-current that are acquired exclusively with the view to resale shall not be classified as current unless they meet the criteria to be classified as held for sale in accordance with Mexican FRS B-11. In addition, for assets classified according to a liquidity presentation of the statement of financial position, under Mexican FRS B-11, non-current assets are those assets expected to be recovered more than twelve months after the reporting date (or within the entity's normal business cycle if it exceeds twelve months).

Mexican FRS B-11 is effective for annual periods beginning on or after 1 January 2020. Early application is not permitted. Under Mexican FRS B-11, initial adoption can be applied on a prospective basis.

The adoption of Mexican FRS B-11 had no effect on the Company's financial statements.

### **Guidance on Mexican FRS 5 Alternatives for Transitioning to Mexican FRS D-5 Leases**

Guidance on Mexican FRS 5 Alternatives for Transitioning to Mexican FRS D-5 Leases contains guidance on accounting for the transition to Mexican FRS D-5 upon initial adoption and provides a number of illustrative examples.

The adoption of Guidance on Mexican FRS 5 had no effect on the Company's financial statements.

### **Guidance on Mexican FRS 6 Discount rate, lease term and certain disclosures under Mexican FRS D-5 Leases**

Guidance on Mexican FRS 6 Discount rate, lease term and certain disclosures under Mexican FRS D-5 Leases provides guidelines related to determination of the discount rate and lease term and certain disclosures arising from application of Mexican FRS D-5.

The adoption of Guidance on Mexican FRS 6 had no effect on the Company's financial statements.

### **Improvements to Mexican FRS for 2020**

The improvements that give rise to accounting changes related to valuation, disclosures or presentation in the financial statements are as follows:

#### **(i) Mexican FRS D-4 Income taxes**

Entities are now required to recognize the tax effects of distributions of dividends in equity, so when an entity recognizes a liability for distribution of dividends, it must also recognize the corresponding income tax liability, if applicable.

These improvements are effective for annual periods beginning on or after 1 January 2020, with early adoption permitted for annual periods beginning on or after 1 January 2019.

The adoption of these improvements had no effect on the Company's financial statements.

#### **(ii) Mexican FRS D 5 Leases**

##### **a) Use of a risk free rate to discount future lease payments**

Mexican FRS D-5 now includes an option for lessees to measure the lease liability at the commencement date of the lease, at the present value of the lease payments that are not paid at that date using a risk free rate. Lessees must elect whether to apply this option to each lease agreement and, if this option is elected, it must be applied until the end of the lease term.

Mexican FRS D-5 establishes that a risk free rate is the rate that reflects the time value of money under prevailing market conditions established for government bonds with specific maturities; a risk free rate does not take any other risks into account.

##### **b) Separating components of a lease**

Limitations were imposed on the use of the practical expedient set forth in Mexican FRS D-5 related to the separation of non-lease components or relatively insignificant components when determining the right of use asset and the lease liability.

18.

The practical expedient establishes that, when it is difficult to separate the components, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. Lessees still may not apply this practical expedient to embedded derivatives that meet the separation criteria in Mexican FRS C-10.

These improvements are effective for annual periods beginning on or after 1 January 2020, with early adoption permitted for annual periods beginning on or after 1 January 2019.

The adoption of these improvements had no effect on the Company's financial statements.

## 2. Cash and cash equivalents

The cash and cash equivalents balance at December 31, 2020 and 2019 is comprised mainly of cash funds, bank deposits, foreign currency balances and temporary investments payable on demand, all highly liquid and subject to unimportant risk of change in value.

The balance is comprised of the following:

	2020	2019
Cash	\$ 80,521	\$ 599,651
Banks deposits	7,971,863	7,520,415
Investments	3,421	3,492
Total Cash and cash equivalents	<u>\$ 8,055,805</u>	<u>\$ 8,123,558</u>

## 3. Accounts receivable:

The Company's main customers are listed below with certain significant data: :

Name of de customer	2020	2019	Payment terms
Pemex Exploración y Producción	48%	29%	60 days
Comisión Federal de Electricidad	25%	29%	30 days
Other Customers	27%	42%	30 - 45 days
	<u>100%</u>	<u>100%</u>	

The air service market has grown favorably In recent years. This growth is reflected in the demand of the service, which enables the Company to expand its customer base in the public sector, as well as in the private sector.

#### 4. Prepaid expenses

As of December 31, 2020, and 2019, this item is as follows:

	2020	2019
Advance payment of property and equipment	\$ 5,197,340	\$ 11,145,952
Advance payment of insurance	963,733	1,140,778
Prepaid expenses	515,763	1,741,770
Total prepaid expenses	<u>\$ 6,676,836</u>	<u>\$ 14,028,500</u>

#### 5. Property and equipment

The balance as of December 31, 2020 and 2019 is integrated as shown below:

	2020	2019	%
<u>Component subject to depreciation:</u>			
Buildings	\$ 4,045,917	\$ 4,045,917	5%
Flight equipment	194,202,826	160,330,275	16%
Office furniture and equipment	570,588	570,588	10%
Computer equipment	551,184	545,194	30%
Transportation equipment	600,564	667,002	25%
Tools	169,715	114,613	35%
	<u>200,140,794</u>	<u>166,273,589</u>	
Accumulated depreciation	( 140,522,298)	( 127,383,179)	
	<u>59,618,496</u>	<u>38,890,410</u>	
<u>Components not subject to depreciation:</u>			
Land	273,011	273,011	
Spare parts	4,552,077	8,421,628	
Total Property and equipment - Net	<u>\$ 64,443,584</u>	<u>\$ 47,585,049</u>	

The depreciation recorded in the results of 2020 and 2019 amounts to \$ 13,215,894 and \$ 11,507,447 respectively, which is recognized within the cost of services item.

Some of the assets included in the item "flight equipment", whose net book value as of December 31, 2020 amounts to \$ 56,418,686 is in guarantee of certain credits included in Note 8.

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## 6. Flight Equipment

At December 31, 2020 and 2019 the Company's flight equipment at its original value, net value and market value, all in dollars, are as follows:

2020		Acquisition date	Year construction	Acquisition value	Net book value	Market value <sup>(1)</sup>
1	BO 105, XA-MBB S-676	Dec-85	1985	\$ 1,537,272	\$ 1	\$ 300,000
2	BK 117 BM, XA-UBN S-7550	Sep-03	2003	3,867,000	1	1,350,000
3	BK 117 BM, XA-UBP S-7555	Aug-04	2004	3,885,477	1	1,350,000
4	BK 117 BM, XA-UBO S-7551	Sep-04	2004	4,434,759	1	1,350,000
5	EC-135 BM, XA-UDM S-389	Nov-04	2005	3,250,000	1	1,700,000
6	EC-135 BM, XA-UDN S-391	Nov-04	2005	3,250,000	1	1,700,000
7	EC-135 BM, XA-UDO S-400	Nov-04	2005	3,250,000	1	1,700,000
8	BK 117 BM, XA-UEU S-7514	Jan-06	1995	2,800,000	1	1,400,000
9	CESSNA TURBO, XA-ANI S-8655	Mar-07	2006	465,430	1	320,000
10	EC-145 BM, XA-UJA S-9142	Oct-07	2007	5,460,000	1	3,200,000
11	EC-145 BM, XA-UJE S-9144	Oct-07	2007	5,460,000	1	3,200,000
12	EC-155 B1, XA-UNA S-6837	Dec-09	2008	10,437,000	1	4,200,000
13	EC-145, XA-UNK S-9321	Jan-10	2010	6,534,936	1	3,200,000
14	EC-145, XA-UOQ S-9387	Oct-10	2010	6,503,710	1	3,600,000
15	EC-130, XA-KUZ S-4901	Feb-11	2009	2,536,240	1	1,200,000
16	BK 117 C2, XA-THI S-9491	Jun-12	2012	6,336,732	1	3,300,000
17	BK 117 C2, XA-THK S-9500	Jun-12	2012	6,494,384	1	3,300,000
18	EC145 XA-UQV S-9497	Jul-12	2012	6,423,009	1	3,800,000
19	EC145 XA-URX S-9485	Dec-12	2012	7,100,000	1	3,300,000
20	EC155 XA-USY S-6972	Aug-13	2013	12,500,000	1	6,800,000
21	EC155 XA-UTT S-6990	Apr-14	2014	12,500,000	1	7,500,000
22	LEAR JET 45 XA-ZZZ S-45-45243	Nov-15	2004	2,950,000	550,667	2,100,000
23	AW139 XA-KRY S-41357	Nov-15	2016	12,611,820	8,022,244	11,500,000
24	EC175 XA-ZRA S-5032	Nov-15	2016	16,214,232	9,939,057	14,500,000
25	AW139 XA-DIA S-41551	Jan-19	2018	13,042,355	9,058,510	13,042,355
26	EC175 XA-EZM S-5040	Jan-20	2019	16,385,561	13,763,871	16,385,561
27	EC145 XA-UFU S-20298	Feb-20	2019	8,577,340	7,319,330	8,577,340
28	EC145 XA-TIB S-20329	Jul-20	2020	8,909,650	8,315,673	8,909,650
Total Flight Equipment				\$ 193,716,907	\$ 56,969,373	\$ 132,784,906

(1) From "Aircraft Blue Book" Winter 2020 edition.

2019		Acquisition date	Year construction	Acquisition value	Net book value	Market value <sup>(1)</sup>
1	BO 105, XA-MBB S-676	Dec-85	1985	\$ 1,537,272	\$ 1	\$ 300,000
2	BK 117 BM, XA-UBN S-7550	Sep-03	2003	3,867,000	1	1,350,000
3	BK 117 BM, XA-UBP S-7555	Aug-04	2004	3,885,477	1	1,350,000
4	BK 117 BM, XA-UBO S-7551	Sep-04	2004	4,434,759	1	1,350,000
5	EC-135 BM, XA-UDM S-389	Nov-04	2005	3,250,000	1	1,700,000
6	EC-135 BM, XA-UDN S-391	Nov-04	2005	3,250,000	1	1,700,000
7	EC-135 BM, XA-UDO S-400	Nov-04	2005	3,250,000	1	1,700,000
8	BK 117 BM, XA-UEU S-7514	Jan-06	1995	2,800,000	1	1,400,000
9	CESSNA TURBO, XA-ANI S-8655	Mar-07	2006	465,430	1	320,000
10	EC-145 BM, XA-UJA S-9142	Oct-07	2007	5,460,000	1	3,200,000
11	EC-145 BM, XA-UJE S-9144	Oct-07	2007	5,460,000	1	3,200,000
12	EC-155 B1, XA-UNA S-6837	Dec-09	2008	10,437,000	1	4,200,000
13	EC-145, XA-UNK S-9321	Jan-10	2010	6,534,936	1	3,200,000
14	EC-145, XA-UOQ S-9387	Oct-10	2010	6,503,710	1	3,600,000
15	EC-130, XA-KUZ S-4901	Feb-11	2009	2,536,240	1	1,200,000
16	BK 117 C2, XA-THI S-9491	Jun-12	2012	6,336,732	1	3,300,000
17	BK 117 C2, XA-THK S-9500	Jun-12	2012	6,494,384	1	3,300,000
18	EC145 XA-UQV S-9497	Jul-12	2012	6,423,009	1	3,800,000
19	EC145 XA-URX S-9485	Dec-12	2012	7,100,000	1	3,300,000
20	EC155 XA-USY S-6972	Aug-13	2013	12,500,000	1	6,800,000
21	EC155 XA-UTT S-6990	Apr-14	2014	12,500,000	1,166,667	7,500,000
22	LEAR JET 45 XA-ZZZ S-45-45243	Nov-15	2004	2,950,000	1,022,667	2,100,000
23	AW139 XA-KRY S-41357	Nov-15	2016	12,611,820	10,115,713	11,500,000
24	EC175 XA-ZRA S-5032	Nov-15	2016	16,214,232	12,531,854	14,500,000
25	AW139 XA-DIA S-41551	Jan-19	2018	13,042,355	11,148,936	13,042,355
Total Flight Equipment				\$ 159,844,356	\$ 35,985,857	\$ 98,912,355

(1) From "Aircraft Blue Book" Winter 2019 edition.

## 7. Leases

For the development of its operations, the Company uses flight equipment under operating lease as follows:

2020				
Suppliers	Registration and serial number of equipment	Fixed monthly payment	Variable monthly payment	Expiration of Contract
Westlake Aviation, LLC	XA-WEL S-9090	73,000	750 hr	Sep-2021
Westlake Aviation, LLC	XA-USM S-9194	73,000	750 hr	Sep-2021
Westlake Aviation, LLC	XA-NAT S-7124	26,000	650 hr	Sep-2021
Global Vectra Helicorp Ltd	XA-TYM S-6759	42,000		Dec-2019

22.

2019				
Suppliers	Registration and serial number of equipment	Fixed monthly payment	Variable monthly payment	Expiration of Contract
Westlake Aviation, LLC	XA-WEL S-9090	73,000	750 hr	Sep-2020
Westlake Aviation, LLC	XA-USM S-9194	73,000	750 hr	Sep-2020
Westlake Aviation, LLC	XA-NAT S-7124	26,000	650 hr	Sep-2020
Global Vectra Helicorp Ltd	XA-TYM S-6759	42,000		Dec-2019

## 8. Long term loans

At December 31, 2020 and 2019, the Company had the following bank loans and other creditors:

	Maturity	2020	2019
<u>Current portion of long-term liability:</u>			
Bayern LB	Apr-2020	\$ -	\$ 521,583
Bayern LB	Apr-2022	513,536	513,536
Bayern LB	Sep-2023 y Jan-2024	2,310,938	2,310,938
Bayern LB	Apr-2026	-	1,218,245
Sum Bayern LB		2,824,474	4,564,302
Air Finance/Apple Bank for Savings	Apr-2025	1,420,641	1,352,387
Air Finance/Apple Bank for Savings	Apr-2027	1,067,686	1,018,195
Sum Air Finance/Apple Bank for Savings		2,488,327	2,370,582
Airbus Helicopters Leasing Services Ltd	Jul-2027	1,392,280	
Operadora de Aviación General de Toluca S.A. de C.V.	Jul-2026	327,984	324,358
Pico Aviation Designated Activity Company	Dec-2029	824,670	-
Pico Aviation Designated Activity Company	Dec-2029	429,830	-
Pico Aviation Designated Activity Company	Jul-2030	422,615	-
Sum Pico Aviation Designated Activity Company		1,677,115	-
BBVA Bancomer, S. A	Oct-2022	710,386	749,719
Total current portion of long-term liabilities		\$ 9,420,566	\$ 8,008,961

	Maturity	2020	2019
<u>Long-term portion</u>			
Bayern LB	Apr-2022	\$ 288,668	\$ 802,204
Bayern LB	Sep-2023 y Jan-2024	2,973,004	5,283,942
Bayern LB	Apr-2026	-	9,441,396
Sum Bayern LB		<u>3,261,672</u>	<u>15,527,542</u>
Air Finance/Apple Bank for Savings	Apr-2025	5,264,840	6,685,481
Air Finance/Apple Bank for Savings	Apr-2026	7,788,339	8,856,025
Sum Air Finance/Apple Bank for Savings		<u>13,053,179</u>	<u>15,541,506</u>
Airbus Helicopter Leasing Services Ltd	Jul-2027	<u>8,005,608</u>	-
Operadora de Aviación General de Toluca, S.A. de C.V.	Jul-2026	<u>1,422,570</u>	<u>1,752,368</u>
Pico Aviation Designated Activity Company	Dec-2029	10,639,213	-
Pico Aviation Designated Activity Company	Dec-2029	5,440,211	-
Pico Aviation Designated Activity Company	Jul-2030	5,884,329	-
Sum Pico Aviation Designated Activity Company		<u>21,963,753</u>	<u>-</u>
BBVA Bancomer, S. A.	Oct-2022	<u>591,987</u>	<u>1,374,485</u>
Total long-term portion in US dollars		<u>\$ 48,298,769</u>	<u>\$ 34,195,901</u>

The above loans are for original terms between 7 to 10 years and generate interest mainly at a variable rate, taking as a reference the Libor Rate plus 1.70 to 2.90 percentage points.

## 9. Foreign Currency Balances:

a) At December 31, 2020 and 2019, the Company had monetary assets and liabilities in Euros (€), as follows:

	2020	2019
Assets	Eur. 5,963,899	Eur. 10,812,400
Liabilities	( 26,273)	( 339,328)
Net short position	<u>Eur. 5,937,626</u>	<u>Eur. 10,473,072</u>

As of December 31, 2020, and 2019, the exchange rate was \$ 24.3563 and \$ 21.17506 per euro. As of June 16, 2021, date of issuance of the financial statements, the exchange rate was \$ 24.3042 per euro.



24.

## 10. Equity

Capital stock is comprised as follows at December 31, 2020 and 2019:

Shares	Description	Total Amount
10,000	Series "A" (Common nominative shares): Representing the fixed portion of capital stock without withdrawal rights	\$ 1,271,340
	Capital stock at December 31, 2020 and 2019.	<u>\$ 1,271,340</u>

The profit for the year is subject to the legal provision requiring that at least 5% of the profit be set aside to increase the legal reserve until it reaches an amount equivalent to one fifth of the capital stock.

Dividends to be paid will be free from income tax if they come from net tax profit account (CUFIN by its Spanish acronym). Any dividends paid in excess of CUFIN and CUFINRE will cause a tax equivalent to 42.86% if they are paid on 2020. The current tax is payable by the Company and may be credited against its income tax of the year or the following two years. Dividends paid coming from profit previously taxed by income tax are not subject to tax withholding or additional tax payment.

As of 2014, Income tax law sets an additional tax of 10% for profit generated as of 2014 to dividends paid to foreign residents and Mexican individuals.

Also, Income tax law grants a tax incentive to individuals' resident in Mexico who are subject to the additional payment of 10% on dividends or distributed profit.

The incentive is applicable provided such dividends or profit were generated in 2014, 2015, 2016 and are reinvested in the legal entity that generated such profit, and consists of a tax credit equal to the amount obtained by applying the distributed dividend or profit, the percentage related to the distribution year as follows:

Year of dividend or profit distribution	Percentage applicable to the amount of the distributed dividend or profit
2018	2
2019	5
2020	5

Tax credit determined will be only creditable against the additional 10% income tax that the legal entity must withhold and pay and provided all requirements established by Income tax law itself are met.

At June 02, 2020 the Company decreted and distributed dividends by an amount of \$563,214 and 2019 by an amount of \$2,939,155, at June 8, and August 13. These dividends were paid in cash.

In the event of a capital reduction, any excess of stockholders' equity over capital contributions, the latter restated in accordance with the provisions of the Income Tax Law, is accorded the same tax treatment as dividends.

# **11. Income tax :**

## a) Income Tax

b) The Mexican Income Tax Law (MITL) establishes a corporate income tax rate of 30% for fiscal years 2020 and 2019.

Income tax for the year is calculated by applying the statutory income tax rate to the Company's taxable income for the year.

The tax income differs from the accounting income, mainly in such items cumulative by the time and deducted differently for accounting and tax purposes, by the recognition of the inflation effects for tax purposes, as well as such items only affecting either the accounting or tax in income.

For the Years ended December 31, 2020 and 2019, the Company reported taxable income of \$8,731,170 and \$4,403,030, respectively, on which income tax was \$2,619,351 and \$1,320,909, respectively.

## c) The reserve for income tax is analyzed as follows:

	2020	2019
Income tax currently payable	\$ 2,619,351	\$ 1,320,909
Deferred income tax	-	-
Total income taxes according to statement of income (comprehensive)	<u>\$ 2,619,351</u>	<u>\$ 1,320,909</u>

26.

d) Tax Balances

	2020	2019
Updated Contribution Capital Account (CUCA)	\$ 2,374,096	\$ 2,429,034
Net Tax Income Account (CUFIN)	11,006,879	4,723,700

## 12. Analysis of Net Financing Cost

The comprehensive financing result is comprised as follows :

	2020	2019
Interest paid	\$ ( 3,503,624)	\$ ( 3,568,130)
Interest earned	39,756	106,223
Exchange fluctuation net	257,679	( 546,416)
Total applied to income for the year	<u>\$ ( 3,206,189)</u>	<u>\$ ( 4,008,323)</u>

## 13. Other Income

The other products are a comprised as follows:

	2020	
Recovery insurance	\$ 410,647	\$ 250,628
Implementation of fiscal stimulus	87,807	72,172
Profit from sale of fixed assets	-	2,125,667
Other products net	74,986	( 13,696)
Total	<u>\$ 573,440</u>	<u>\$ 2,434,771</u>

## 14. Contingencies and Commitments

a) The tax authorities have the power to verify the Company's compliance with its tax obligations as a taxpayer and withholder for the last five fiscal years and may determine differences in the tax results declared that, in their judgment, could result in the payment of tax credit.

b) In accordance with the Income Tax Law, companies that carry out transactions with related parties are subject to tax limitations and obligations regarding the determination of the agreed prices, since these must be comparable to those that would be used with or between independent parties in comparable transactions.

## **15. Subsequent Events**

Between January 1, 2021 and the date of issuance of these financial statements there were no events that, in the opinion of the Company's management, could have a significant effect on these financial statements that have not been disclosed in these financial statements except for the one described below:

On April 23, 2021, a new amendment to the Federal Labor Law; of the Social Security Law; of the Law of the National Workers' Housing Fund Institute; of the Federal Tax Code; of the Income Tax Law; of the Value Added Tax Law was published in the Official Gazette of the Federation; of the Federal Law of Workers in the Service of the State, Regulatory of Section B) of Article 123 of the Constitution; of the Regulatory Law of Section XIII Bis of Section B, of Article 123 of the Political Constitution of the United Mexican States, all of them related to Outsourcing Labor Subcontracting. The Company currently has all of its personnel hired through a subcontracting scheme with a third party. To date, the Company is evaluating all the implications of these modifications